

INTERNAL AUDIT

West London Waste Authority (WLWA)

Annual Internal Audit Report & Opinion Statement 2016/17

Draft for Audit Committee as at 31st August 2017



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1. Introduction

1.1 The Role of Internal Audit

- 1.1.1 Internal Audit (IA) provides an independent assurance and consultancy service that underpins good governance, which is essential in helping the Authority achieve its corporate objectives. It is also a requirement of the Accounts and Audit (England) Regulations 2015 that the Authority undertakes an effective IA to evaluate the effectiveness of its risk management, internal control and corporate governance processes, taking into account public sector internal auditing standards or guidance.
- 1.1.2 IA give an objective opinion to the Authority on whether the control environment is operating as expected. In 'traditional' IA teams this usually means compliance testing of internal controls. However, the IA service provided to the Authority fully embraces the risk based approach which means IA provides greater assurance to the Authority because it is focused on the key risks to the achievement of the organisation's objectives. As a result, IA does not just comment on whether the controls operate, but whether they are the right controls to mitigate risk and enhance the likelihood of achieving the overall aims of the service.
- 1.1.3 The UK Public Sector IA Standards (PSIAS) promote further improvement in the professionalism, quality, consistency and effectiveness of IA across the public sector. They stress the importance of robust, independent and objective IA arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the Annual Governance Statement (AGS).

1.2 The Purpose of the Annual Internal Audit Report and Opinion Statement

- 1.2.1 This annual report summarises the main findings arising from the 2016/17 IA assurance work. The report also provides IA key stakeholders, including the Authority's Officers Team and the Audit Committee, with an opportunity to hold the Head of Internal Audit (HIA) to account on delivery of the 2016/17 IA Plan and on the effectiveness of the IA service.
- 1.2.2 The UK PSIAS require the HIA to deliver an annual IA report and opinion statement that can be used by the organisation to inform its AGS. Therefore, in setting out how it meets the reporting requirements, this report and opinion statement also outlines how IA has supported the Authority in meeting the requirements of the Accounts and Audit (England) Regulations 2015.

2. Executive Summary

- 2.1 The HIA is pleased to report that delivery of **the 2016/17 IA plan was 100% complete to final report stage by 31st March**. This is an excellent achievement for IA and the Authority and highlights the continued collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Authority.
- 2.2 Delivery of the IA plan for 2016/17 has been achieved in a timely manner by applying a fully risk based approach to help focus IA resources on the key risks facing the Authority. In addition, the HIA believes this relative success is predominantly due to the collaborative approach that IA is taking in working with management to help achieve positive outcomes for the Authority. Further details of IA performance can be found at section 6 of this report.
- 2.3 From the work undertaken and from the other sources of assurance referred to in para 3.7:

*It is the HIA's opinion that overall IA can provide **REASONABLE** assurance that the system of internal control that has been in place at WLWA for the year ended 31st March 2017 accords with proper practice, except for the significant internal control issues referred to in para 3.8 .*

- 2.4 In total **5** pieces of IA work have been delivered as part of the 2016/17 IA plan. This includes 4 assurance reviews and 1 follow-up review. Three of the assurance reviews resulted in a **REASONABLE** assurance opinion being provided with one receiving a **LIMITED** assurance opinion. Whilst this may appear concerning, this provides positive assurance to the Audit Committee that IA resource is risk based and focused on areas of concern. The IA follow-up review does not provide a formal assurance opinion.
- 2.5 All bar one of the 2016/17 **HIGH** and **MEDIUM** risk recommendations raised by IA were accepted by the relevant managers/risk owners, with positive action proposed to TREAT these risks. One risk within the IA review of Risk Management was risk tolerated by management with this previously been reported to the Committee. Further analysis of the IA assurance levels issued in 2016/17 along with a breakdown of the risk recommendations raised can be found at section 4 of this report.
- 2.6 The table below provides an analytical review of assurance opinions issued by IA over the last 3 years which demonstrates a broadly consistent picture over this period:

Assurance Level	2014/15	2015/16	2016/17
Substantial	0	0	0
Reasonable	5	4	3
Limited	0	0	1
No	0	0	0
Totals	5	4	4

- 2.7 Focussing a dedicated IA review on **following-up recommendations** that are due to have been implemented, has helped to continue to achieve a positive outcome for the Authority during 2016/17. Specifically, as at 31st August 2017, only 1 of the 2 **HIGH** risk recommendations raised in 2016/17 have fallen due which was confirmed by management, and verified by IA, as implemented. The remaining **HIGH** risk recommendation implementation date had not yet passed. IA verification work to confirm **HIGH** and **MEDIUM** risk recommendations are embedded and operating as intended can be found at section 5 of this report.

3. Head of Internal Audit Opinion Statement 2016/17

3.1 Background

- 3.1.1 The HIA opinion statement is provided to inform the Director and Chair of the Authority and to assist them in completing the AGS, which forms part of the statutory Statement of Accounts for the 2016/17 year.
- 3.1.2 The AGS provides public assurances about the effectiveness of the Authority's governance arrangements, including the system of internal control. The HIA opinion statement meets the Authority's statutory requirement under Regulation 6 of the Accounts and Audit (Amendments) (England) Regulations 2015, and is also aligned to the PSIAS, in particular performance standard 2450, where the chief audit executive is required to deliver an annual internal audit opinion.

3.2 Scope of Responsibility

- 3.2.1 The Authority is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty, under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

3.2.2 In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk. Specifically, the Authority has a statutory responsibility for conducting a review of the effectiveness of the system of internal control on at least an annual basis.

3.3 The Purpose of the System of Internal Control

3.3.1 The Authority's system of internal control is designed to manage risk to a reasonable level rather than to completely eliminate the risk of failure to achieve policies, aims and objectives. Consequently, it can only provide a reasonable, and not absolute, assurance of effectiveness.

3.3.2 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's corporate objectives and associated business plan. It also is designed to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.4 Annual Opinion Statement on the Effectiveness of the System of Internal Control

3.4.1 The HIA opinion is based primarily on the IA assurance work carried out by IA service during 2016/17, as well as a couple of other assurance providers which have been considered in forming the HIA opinion.

3.4.2 The IA Plan for 2016/17 was developed primarily to provide WLWA Officers Team and the Audit Committee with independent assurance on the adequacy and effectiveness of the systems of internal control, including an assessment of the Authority's corporate governance arrangements and risk management framework.

3.5 Basis of Assurance

3.5.1 All of the IA reviews carried out in 2016/17 have been conducted in accordance with the UK PSIAS. An external quality assurance (EQA) review of the IA service confirmed that Hillingdon's IA service fully conforms to the requirements of the UK PSIAS in 2016/17.

3.5.2 In line with the UK PSIAS, the HIA is professionally qualified and suitably experienced. The skills mix within the rest of the in-house IA team has evolved during the year with every single member of the IA team either fully qualified or actively studying for a relevant professional IA qualification. As a result, the 2016/17 IA resources fulfilled the UK PSIAS requirements in terms of the combination of professionally qualified and suitably experienced staff.

3.6 Qualifications to the Opinion

3.6.1 During 2016/17 the Authority's IA service:

- had **unrestricted access to all areas and systems** across the Authority;
- received **appropriate and full co-operation from officers and members**;
- had **sufficient resources to enable it to provide adequate coverage** of the Authority's control environment to provide the overall opinion (refer to para 3.11.3).

As a consequence, **there are no qualifications to the 2016/17 HIA opinion statement.**

3.7 Other Assurance Providers

3.7.1 In formulating the HIA overall opinion on the Authority's system of internal control, the HIA has taken into account the work undertaken by other sources of assurance, and their resulting findings and conclusions which included the Audit Committee; and coverage by External Audit.

3.8 Significant Internal Control Weaknesses

- 3.8.1 IA is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise during the year.
- 3.8.2 **There were two significant control weaknesses identified by IA during 2016/17.** Work is ongoing to strengthen the Authorities control environment in relation to the significant control weaknesses identified. These included (but are not limited to):
1. The 2016/17 IA review of Creditors identified that invoices relating to Non-Waste Trade and Disposal services and/or goods, were being processed without confirmation of receipt. Following this IA assurance review, management proposed positive action which was confirmed as implemented within the 2016/17 follow up review.
 2. The 2016/17 IA review of Waste Minimisation identified that the Waste Prevention Strategy was not current, dated 2011 to 2015. In the absence of an up-to-date strategy, an unstructured approach to waste minimisation could therefore be undertaken. Management had proposed positive action to the recommendation raised, although the implementation due date has not past.

3.9 Risk Management

- 3.9.1 Risk Management (RM) is the process by which risks are identified and evaluated so that appropriate risk treatment measures can be applied to reduce the likelihood and impact of risks materialising. In the event a risk materialises, this could inhibit the Authority to achieve its corporate objectives, associated business plan and fulfil its strategic priorities.
- 3.9.2 The 2016/17 IA assurance review of RM provided **REASONABLE** assurance over the management of the key risks to the achievement of the objectives for the Authority's RM process. The Authority's Financial Regulations (FRs) document the responsibilities of Officers and Members, in particular the Audit Committee, in relation to Risk Management. This is underpinned by the Risk Management Framework and Policy.
- 3.9.3 We found sufficient controls were in place allowing the Authority to identify, classify and evaluate risks. We are pleased to report the risks are RAG (Red, Amber and Green) rated, which is seen as good practice as well as being aligned to the PESTEL framework.
- 3.9.4 Our review did identify control weaknesses in the management of the Authority's identified risks. Our review highlighted that management action recorded within the risk register was not consistently provided with timescales for action, potentially weakening accountability for mitigating action to be taken. Whilst we found instances in which the inherent and residual risk scoring did not alter after mitigating actions.
- 3.9.5 We are pleased to report that the risk register is regularly updated, reported and reviewed at all levels within the Authority and considered at the Authority's Audit Committee (who met twice during 2016/17) informing Members of significant changes to prioritised risks (**RED** and **AMBER**). This allows the Audit Committee to fulfil its duty and review the risk register and the risk management strategy as per the Authority's FRs.

3.10 Corporate Governance

- 3.10.1 Corporate governance (CG) can be defined as the way in which the Authority is *directed* and *controlled*. It comprises a combination of systems, processes and structures as well as the culture of the Authority. Good governance is acknowledged to be essential for the success of any organisation and leads to good management, performance, stewardship of public money, and fundamentally good outcomes for stakeholders. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services, value for money and delivery of stakeholder expectations.

3.10.2 The 2016/17 IA assurance review provided **REASONABLE** assurance in this area, assessing the Authority against the 7 Principles for good governance framework, as published within the 2016 revised addition of CIPFA's *Delivering Good Governance Framework*. Testing verified the Authority's overall compliance against these 7 principles.

Annual Governance Statement

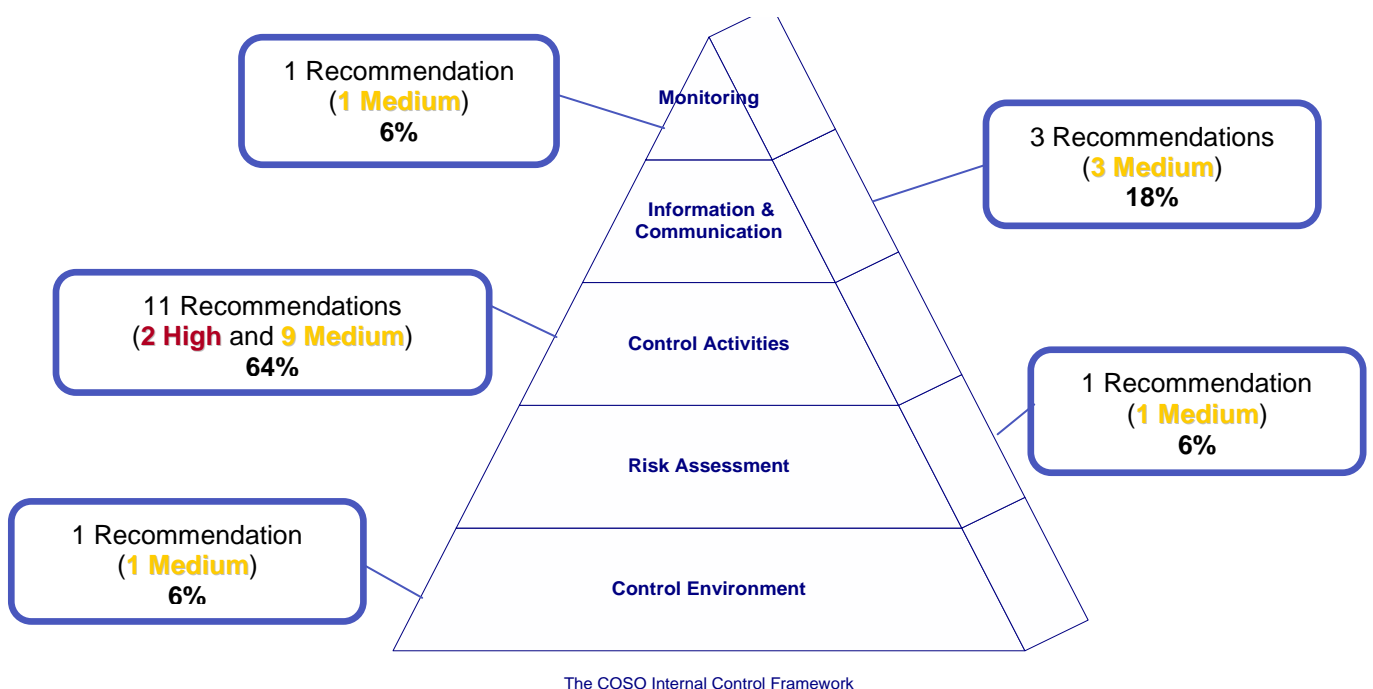
3.10.3 The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Authority has a statutory obligation under the Accounts and Audit (England) Regulations 2015 to prepare an Annual Governance Statement (AGS), a significant component of the Authority's governance framework. The AGS provides the Authority with a mechanism to demonstrate its positive governance culture and also enables stakeholders to understand the governance arrangements the Authority has in place. The AGS supports the Annual Statement of Accounts and identifies any significant governance issues.

3.10.4 IA established that the draft AGS was produced as part of the draft Annual Statement of Accounts for 2016/17, presented to the West London Waste Authority on the 23rd June 2017. We are aware that assurance statements are completed by the Authority's Chief Officers and Senior Managers to demonstrate the ownership for the quality of governance arrangements around service areas for which they are responsible.

3.10.5 **There were NO significant governance weaknesses identified within the 2016/17 Draft AGS reported to the Authority on 23rd June 2017.** The 2016/17 AGS is in the process of being finalised for the Annual Statement of Accounts for 2016/17 that will be presented to Audit Committee on 22nd September 2017, prior to approval by the Authority.

3.11 Internal Control

3.11.1 The IA opinion on the Authority's internal control system is **based on the best practice on Internal Control from the Committee of Sponsoring Organisations of the Treadway Committee (COSO)**. These components provide an effective framework for describing and analysing the internal control system implemented in an organisation. The diagram overleaf details the elements of the COSO internal control framework and the number of **HIGH** and **MEDIUM** IA risk recommendations pertinent to each component.



3.11.2 As expected the majority of IA recommendations related to improvements over control activities. These include recommendations relating to written procedures, maintaining operational risk registers and review of access rights. The other components of the framework have a relative proportionate share of recommendations. As noted at para 3.9, there are some weaknesses within the operational risk management processes. As a result, although there were only a few IA recommendations raised in 2016/17 that related to the risk assessment component of the COSO framework, it should not be inferred that risk assessment is completely robust.

3.11.3 The individual IA assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations have a bearing too. From the IA work undertaken in 2016/17, and the other sources of assurance referred to at para 3.7, **it is the HIA's opinion that overall IA can provide REASONABLE assurance that the system of internal control that has been in place at the Authority for the year ended 31st March 2017 accords with proper practice.**

4. Analysis of Internal Audit Activity 2016/17

4.1 Internal Audit Assurance Work 2016/17

4.1.1 The 2016/17 IA assurance work may be summarised by the assurance level achieved (definitions of the IA assurance levels are included at **Appendix B**) as per the table below:

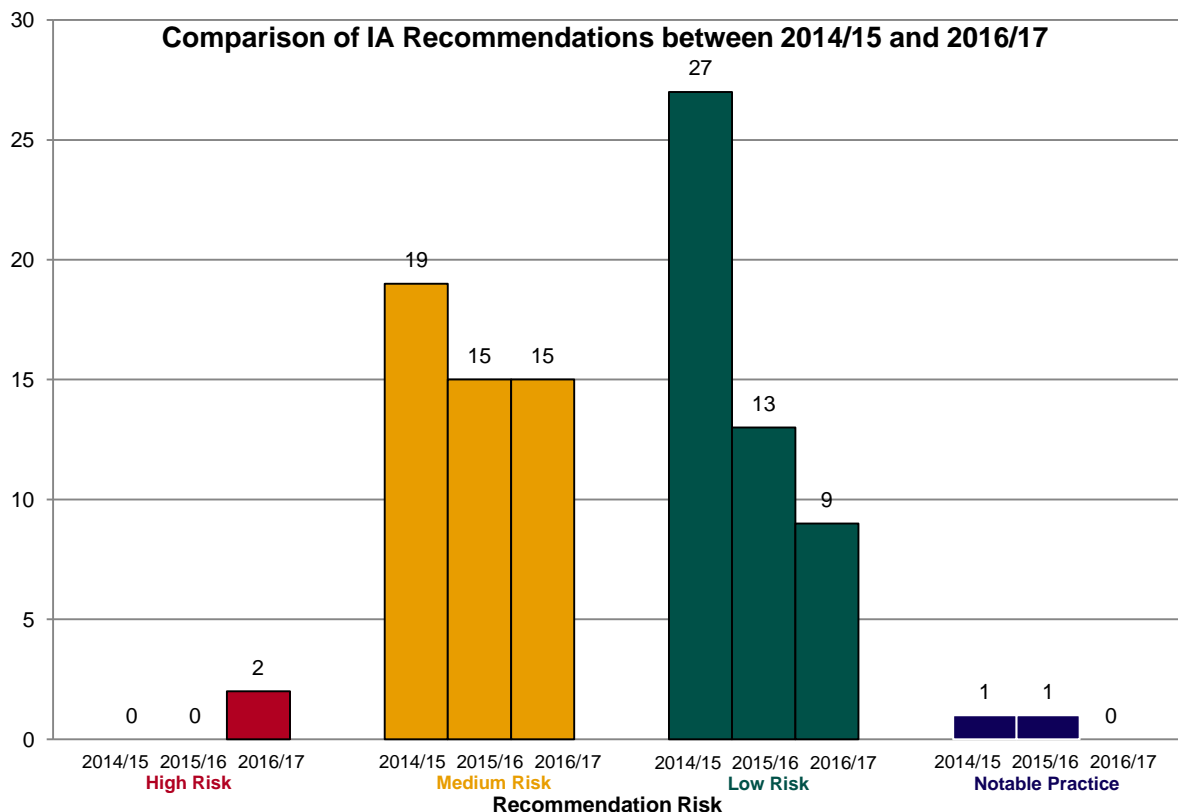
Assurance Level	Number of IA Assurance Reports	Assurance %
REASONABLE	3	75%
LIMITED	1	25%
TOTAL	4	100%

4.1.2 The table above highlights that 3 of the 4 areas subject to IA in 2016/17 were assessed by IA as providing a **REASONABLE** assurance opinion, with the remaining area provided with **LIMITED** assurance opinion. This is against a backdrop of IA resources being focused on key risk areas to the Authority and therefore reflects positively on the overall control environment within the Authority. The individual assurance audits carried out during 2016/17 are fully listed at **Appendix A** which indicates the assurance levels achieved (as outlined at **Appendix B**) and provides an analysis of the IA recommendations made (in accordance with the risk ratings as outlined at **Appendix B**).

4.1.3 For the 4 IA assurance reviews, there were **26** IA assurance recommendations raised in total in 2016/17:

Risk Rating	Number of 2016/17 IA Recommendations	Percentage Split	Comparison	
			2015/16	2014/15
HIGH	2	8%	0% (0)	0% (0)
MEDIUM	15	58%	54% (15)	41% (19)
LOW	9	34%	46% (13)	59% (27)
TOTALS	26	100%	100% (28)	100% (46)
NOTABLE PRACTICE	-	-	1	1

4.1.4 Given that an increasingly risk based IA approach has been applied in 2016/17, it is in line with IA's expectations that approximately **two thirds of the IA recommendations raised** are **HIGH** or **MEDIUM** risk. The breakdown of all 2016/17 IA recommendations (plus notable practices) by risk rating, is provided in the bar chart overleaf providing a comparison with prior year data:



- 4.1.5 The bar chart above highlights an overall reduction in the number of medium and low risk recommendations raised over the past 2 years. However, as per the table within para 4.1.3, this distribution does however represent a 4% increase in medium risk recommendations when compared to the prior year. Further, there was also a 8% increase in **HIGH** risk recommendations when compared to 2014/15 and 2015/16 financial years. This is line with our expectations, given the risk based approach to IA work.

5. Internal Audit Follow Up

- 5.1 IA monitors all **HIGH** and **MEDIUM** risk recommendations raised, through to the point where the recommendation has either been implemented, or a satisfactory alternative risk response has been proposed by management. IA does not follow-up **LOW** risk recommendations as they tend to be minor risks i.e. compliance with best practice, or issues that have a minimal impact on a Service's reputation such as adherence to local procedures. It would also take a disproportionate amount of time for IA to robustly follow-up **LOW** risk recommendations. The full definitions of the IA recommendation risk ratings and risk responses are included at [Appendix B](#).
- 5.2 We are aware that management track **LOW** risk recommendations and management have informed us that 6 out of 9 low risk recommendations raised in 2016/17 have been accepted and implemented.
- 5.3 Following the issue of an IA assurance report, **HIGH** and **MEDIUM** risk recommendations are recorded in TeamCentral, a module of our TeamMate e-audit software, for tracking and monitoring purposes. Recommendation risk owners and key stakeholders have access to and provide status updates (including supporting evidence) via this software.
- 5.4 The **4** IA assurance reviews have resulted in **26** IA recommendations being raised in 2016/17. Given that we are taking a risk based IA approach to IA coverage, it is a positive outcome that only two **HIGH risk recommendations were raised in 2016/17**. The table overleaf summarises the **status of IA 2016/17 recommendations** raised as at 31st August 2017:

2016/17 IA Recommendation Status as at 31 st August 2017	HIGH	MEDIUM	LOW	Total	NOTABLE PRACTICE
Total No. of recommendations raised (per <u>Appendix A</u>)	2	15	9	26	-
No. of recommendations tolerated	-	2*	-	2	-
No. of recommendations due for follow-up Implementation	1	10	-	11	-
No. of recommendations implemented	1	9	-	10	-
No. of recommendations outstanding	-	-	-	-	-

* One risk tolerated following issue of final report

- 5.5 Positive management action was proposed to address **16 of the 17** 2016/17 **HIGH** and **MEDIUM** risk IA recommendations raised, with management opting to tolerate one **MEDIUM** risk recommendation, raised in the IA review of risk management. As at the 31st August 2017, 11 of these recommendations had fallen due.
- 5.6 Through testing we were able to verify that 10 out of 11 due recommendations had been implemented. In one case the recommendation was found to be not implemented and management have since chosen to tolerate this **MEDIUM** risk recommendation, this was following agreement to treat the risk within the final IA report. As a result no **HIGH** and **MEDIUM** risk recommendations remain outstanding as at 31st August 2017.
- 5.7 The status of IA recommendations has been communicated with senior officers via the annual follow up review, verifying the implementation of management action.

6. Review of Internal Audit Performance

6.1 Key Performance Indicators

- 6.1.1 The IA Key Performance Indicators (KPIs) measure the quality, efficiency and effectiveness of the IA service. They assist IA and the Authority in helping measure how successful IA has been in achieving its strategic and operational objectives, ensuring that assurance is provided to Senior Management and the Audit Committee in a timely and effective manner.
- 6.1.2 Actual cumulative IA performance for 2016/17 against its KPIs is highlighted in the table below:

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 1	HIGH risk IA recommendations where positive management action is proposed	98%	100%	GREEN
KPI 2	MEDIUM risk IA recommendations where positive management action is proposed	95%	94%	AMBER
KPI 3	HIGH risk IA recommendations where management action is taken within agreed timescale	90%	100%	GREEN
KPI 4	MEDIUM risk IA recommendations where management action is taken within agreed timescale	75%	90%	GREEN
KPI 5	Percentage of IA Plan delivered to draft report stage by 31 st March	90%	100%	GREEN

IA KPI	Description	Target Performance	Actual Performance	RAG Status
KPI 6	Percentage of IA Plan delivered to final report stage by 31 st March	80%	100%	GREEN
KPI 7	Percentage of draft reports issued as within 10 working days following the exit meeting	90%	100%	GREEN
KPI 8	Percentage of draft reports issued as a final report within 5 working days after receiving management responses to the HIGH and MEDIUM risk IA recommendations proposed	90%	100%	GREEN
KPI 9	Client Satisfaction Rating	85%	86.7%	GREEN
KPI 10	IA work fully compliant with the PSIAS and IIA Code of Ethics	100%	100%	GREEN

6.2 Client Feedback Questionnaires

- 6.2.1 IA send out a client feedback questionnaire (CFQ) at the completion of all assurance reviews to capture and obtain formal management feedback. The **IA CFQ target** previously agreed with the Officers Team and the Audit Committee was for IA to achieve **an overall average score of 3.4 (85%) or above** across the eight CFQ areas. As a recap on the CFQ scores, **4** means the client *strongly agrees*; **3** is *agree*; **2** is *disagree*; and **1** is *strongly disagree*.
- 6.2.2 There is not an option on the CFQ for the client to indicate that they 'neither agree or disagree'. This is a deliberate decision by the HIA to enable management to form an overall and definitive opinion on the work that IA does i.e. did the internal audit review add value or not? Inherently with any feedback mechanism such as this, there is a risk that the CFQ results can become skewed where a client is unhappy i.e. if there are large number of recommendations or a poorer assurance level than expected/ anticipated, the client may be inclined to dismiss the value of the IA work with a low CFQ score.
- 6.2.3 IA is pleased to report that the overall average CFQ score for 2016/17 is 87%, which is 2% above the target performance for IA. The table overleaf shows a breakdown of the average score from the **4 CFQs completed since 1st April 2016** (as per **Appendix A**):

IA CFQ Areas	Average Score	Percentage
Q1. Planning: The planning arrangements for the IA review were good	3.25	81.25%
Q2. Scope: The scope of the IA review was relevant	3.25	81.25%
Q3. Conduct: The IA review was conducted in a highly professional manner	3.75	93.75%
Q4. Timing: The IA review was carried out in a timely manner	3.25	81.25%
Q5. Report: The IA report was presented in a clear, logical and organised way	4	100%
Q6. Recommendations: The IA recommendations were constructive and practical	3.25	81.25%
Q7. Value: The IA review added value to your service area	3	75%

Q8. Overall: I look forward to working with IA in future	4	100%
Overall Average CFQ Score	3.47	86.72%

6.2.4 IA is extremely grateful to management for the formal feedback in CFQs it has received. A **100% completion rate of CFQs** is excellent and will help IA continue to improve as a service.

7. Forward Look

- 7.1 Looking forward to 2017/18, the IA focus will be on delivering consistently high quality value added IA assurance reviews. The IA Plan for 2017/18 has been agreed by the Authority and, in addition to an annual follow-up review, includes **four** assurance reviews relating to:
- *Staff Expenses;*
 - *Scheme of Delegations;*
 - *Contract Management; and*
 - *Budgetary Control.*
- 7.2 The software in use by IA (TeamMate) will continue to help **improve the monitoring, follow-up and tracking of IA recommendations** by management. The WLWA Officers Team can easily monitor the progress and status of all IA recommendations and the action plans established. This provides for greater responsibility on management, as owners of the risks, to provide progress updates on their recommendations.
- 7.3 IA would like to take this opportunity to formally thank all those staff throughout the Authority with whom IA it had contact with during the year. There has been a collaborative approach in IA's relationship with the WLWA Officers Team who have responded positively, both informally and through the formal CFQ reporting.
- 7.4 There are no other matters that we need to bring to the attention of the WLWA Officers Team or the Audit Committee at this time.

Muir Laurie FCCA, CMIIA
Head of Business Assurance

31st August 2017

APPENDIX A**DETAILED INTERNAL AUDIT WORK UNDERTAKEN IN 2016/17**

Key:	
IA = Internal Audit	NP = Notable Practice
H = High Risk	CFQ = Client Feedback Questionnaire
M = Medium Risk	
L = Low Risk	

2016/17 IA Assurance Reviews:

IA Ref.	IA Review Area	Status as at 31 st August 2017	Assurance Level	Risk Rating				CFQ Received
				H	M	L	NP	
WL1	Creditors	Final report issued 13 th October 2016	REASONABLE	1	2	-	-	✓
WL2	Risk Management	Final report issued 25 th November 2016	REASONABLE	-	5	3	-	✓
WL3	Waste Minimisation	Final report issued 17 th January 2017	LIMITED	1	2	1	-	✓
WL4	Corporate Governance	Final report issued 17 th January 2017	REASONABLE	-	6	5	-	✓
Total number of IA Assurance Recommendations raised in 2016/17				2	15	9	-	
Total percentage of IA Assurance Recommendations raised in 2016/17				8%	58%	34%	-	

APPENDIX B**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

ASSURANCE LEVEL	DEFINITION
SUBSTANTIAL	There is a good level of assurance over the management of the key risks to the Authority objectives. The control environment is robust with no major weaknesses in design or operation. There is positive assurance that objectives will be achieved.
REASONABLE	There is a reasonable level of assurance over the management of the key risks to the Authority objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains some risk that objectives will not be achieved.
LIMITED	There is a limited level of assurance over the management of the key risks to the Authority objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a significant risk that objectives will not be achieved.
NO	There is no assurance to be derived from the management of key risks to the Authority objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a high risk that objectives will not be achieved.

1. **Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
 - Establishing and monitoring the achievement of the authority's objectives;
 - The facilitation of policy and decision-making;
 - Ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
 - Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
 - The financial management of the authority and the reporting of financial management; and
 - The performance management of the authority and the reporting of performance management.
2. **Risk Appetite:** The amount of risk that the Authority is prepared to accept, tolerate, or be exposed to at any point in time.
3. **Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS

RISK	DEFINITION
HIGH ●	The recommendation relates to a significant threat or opportunity that impacts the Authority's corporate objectives. The action required is to mitigate a substantial risk to the Authority. In particular it has an impact on the Authority's reputation, statutory compliance, finances or key corporate objectives. The risk requires senior management attention.
MEDIUM ●	The recommendation relates to a potentially significant threat or opportunity that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Authority. In particular an adverse impact on the Department's reputation, adherence to Authority policy, the departmental budget or service plan objectives. The risk requires management attention.
LOW ●	The recommendation relates to a minor threat or opportunity that impacts on operational objectives. The action required is to mitigate a minor risk to the Authority as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. The risk may be tolerable in the medium term.
NOTABLE PRACTICE ●	The activity reflects current best management practice or is an innovative response to the management of risk within the Authority. The practice should be shared with others.

RISK RESPONSE DEFINITIONS

RISK RESPONSE	DEFINITION
TREAT	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
TOLERATE	The risk is accepted by management and no further action is proposed.
TRANSFER	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
TERMINATE	The activity / project from which the risk originates from are no longer undertaken.